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ABSTRACT

Because federal expenditures for child care services provided under contract are increasing, the U.S. General Accounting Office reviewed federal and state administration of contracts for such services in California and Pennsylvania. Under title IV-A, states receive federal funds for child-care programs to help welfare families move from dependency to economic self-sufficiency. Findings of the study indicate that HEW needs an adequate reporting and control system to effectively administer the program. Contract weaknesses, questionable enrollee eligibility, low attendance, fiscal discrepancies, and problems relating to the local share of program costs have hampered program effectiveness and increased costs. Federal coordination is needed to overcome problems of operating multiple federal programs which provide similar services in the same geographic areas. Local coordination is required to ascertain community child care needs and provide the additional resources required to satisfy unmet needs. (CS)

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REPORT TO THE CONGRESS

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Some Problems In Contracting For Federally Assisted Child-Care Services B-164031(3)

Social and Rehabilitation Service
Department of Health, Education, and Welfare

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

JUNE 13, 1973

PS 006809

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(3)

To the President of the Senate and the
Speaker of the House of Representatives

We have reviewed some problems in contracting for federally assisted child-care services, which the Social and Rehabilitation Service, Department of Health, Education, and Welfare, administers under the aid to families with dependent children program.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Health, Education, and Welfare.

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

AFDC	aid to families with dependent children
4C	Community Coordinated Child Care
ESEA	Elementary and Secondary Education Act of 1965
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
OEO	Office of Economic Opportunity
SRS	Social and Rehabilitation Service
WIN	Work Incentive

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

SOME PROBLEMS IN CONTRACTING FOR FEDERALLY ASSISTED CHILD-CARE SERVICES

Social and Rehabilitation Service
Department of Health,
Education, and Welfare
B-164031(3)

D I G E S T

WHY THE REVIEW WAS MADE

Because of the large and increasing amount of Federal money spent for child-care services, GAO reviewed the Federal and State administration of contracts in California and Pennsylvania for these services, which are intended to help welfare families become self-sufficient.

The Federal Government shares with the States the expense of child-care services under the aid to families with dependent children program, the largest of several federally supported child-care programs administered by the Department of Health, Education, and Welfare (HEW).

During fiscal year 1972 Federal agencies spent about $750 million for child care services provided to about 1.3 million children. In recent years, the program has been expanding and concern about rapidly rising costs has been expressed.

FINDINGS AND CONCLUSIONS

Contracted child-care services were provided in fiscal year 1971 to about 39,000 children in California and Pennsylvania at a total Federal and State cost of about $60 million. The children obtained educational, social, nutritional, and health benefits. In some instances, the program enabled parents to obtain or continue employment or training. (See p. 10.)

Child-care needs of working or training parents not met

At the time of GAO's fieldwork, HEW regulations required that child-care services be provided to children of public assistance recipients who are working or training. Regulations also permitted services to be provided to children of other low-income families even though the parents were not working or training. (See p. 5.)

A significant number of available spaces provided by contracted child-care services were used for the nonworking, nontraining group because many recipients who were working or training

--elected to receive cash allowances and pay for child-care arrangements made on their own, thereby making spaces available for other low-income families, or

--applied for the services after the nonworking, nontraining parents had already enrolled their children.

Some welfare recipients could not get day-care services because they lived in communities which did not have contracted child-care services available primarily because the community could not provide the local share of the cost.

The low use of services by Work Incentive Program participants and the relatively large number of program

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enrollees whose parents were not working or training raise serious questions as to whether child-care services achieve the primary objective of the program stated above, to help welfare families become self-sufficient.

The approved California and Pennsylvania State plans do not provide for obtaining information needed to assess the seriousness of program shortcomings and to establish a systematic method of meeting priority needs. (See pp. 14 to 16.)

Problems in contracting for child-care services

HEW had not (1) provided adequate guidance to States to assist them in contracting for child-care services, (2) implemented a system to provide data for assessing program effectiveness, nor (3) adequately monitored the States' administration of the program. As a result:

--There were weaknesses in contract requirements and procedures. (See p. 20.)

--Free child-care services were provided to some financially ineligible families. (See p. 23.)

--Financially able families were not required to pay fees. (See p. 24.)

--Facilities were underused due to low attendance. (See p. 26.)

--There were significant variances in the cost of contracted child care for similar services, ranging from $1,100 to $6,300 per child per year. (See p. 28.)

--Fiscal weaknesses caused inaccuracies in State claims for funds authorized by title IV-A of the Social Security Act as amended. (See p. 30.)

--Contributions by providers of services toward the local share of program costs violated or circumvented HEW regulations. (See p. 32.)

Continuing coordination problems of child-care programs

GAO has previously stressed a need for strengthening Federal and local coordination of child-care programs, to overcome problems of operating multiple Federal programs which provide similar services in the same geographic areas while other areas need but are not receiving services. (See p. 38.)

RECOMMENDATIONS OR SUGGESTIONS

HEW should

--assist States in developing plans for gathering information needed to (1) assess the seriousness of program shortcomings and (2) establish a systematic method of meeting priority needs (see p. 17);

--establish ways to insure effective and timely monitoring of fiscal and program aspects of State contracts, including more audits by HEW and States;

--establish criteria which can be used in evaluating the reasonableness of the overall costs for the services procured;

--clarify eligibility requirements to help avoid providing services to ineligible families;

--help States establish sliding fee scales for families able to pay for some portion of child-care services;

--follow up on California and

Pennsylvania actions to adjust the incorrect claims for Federal funds discussed in this report; and

--provide guidelines to States for controlling the use of private contributions toward the local share of child-care costs (see p. 34).

AGENCY ACTIONS AND UNRESOLVED ISSUES

HEW concurred with GAO's findings and recommendations, stating that corrective actions had been taken or were being developed. (See p. 43.)

In addition, recent changes to Federal regulations on social services and revised Federal day-care requirements, will also affect some of the problems discussed in this report. (See p. 17.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

There was much controversy over the proposed regulation changes which would have substantially reduced the number of persons eligible for child-care services. This report can assist the Congress in evaluating the potential effect of some of the final regulation changes which will become effective on July 1, 1973.

CHAPTER 1

INTRODUCTION

Under title IV of the Social Security Act, as amended (42 U.S.C. 601), States receive Federal funds for child-care programs to help welfare families move from dependency to economic self-sufficiency. Child-care services are provided under two categorical aid programs: the aid to families with dependent children (AFDC) program (authorized by title IV-A), which includes child-care services under the Work Incentive (WIN) Program, and the child welfare services program (authorized by title IV-B).

Because child-care services are of interest to the Congress and because Federal expenditures for such services provided under contract are increasing, we reviewed the Federal and State administration of contracts for such services under title IV-A in California and Pennsylvania.

These services may be provided in the child's home or in another private home by relatives or others, or they may be provided in a day-care facility. In such a facility, the care provided includes educational and social development and/or direct care and protection of infants and preschool and school-age children. At the time of our fieldwork, day-care facilities, to serve children under federally assisted programs, had to meet the Federal Interagency Day Care Requirements[1] and applicable State licensing requirements.

Federal regulations (45 CFR 220) require that services be provided to children of parents participating in the WIN Program and to children of other public assistance recipients for whom the States have required training or employment. These groups are referred to in this report as mandatory groups. States may provide services to (1) applicants for public assistance, (2) former recipients of public assistance, and (3) those likely to apply for or receive public assistance. These groups are referred to in this report as nonmandatory groups.

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[1]Approved September 23, 1968, by the Departments of Labor and Health, Education, and Welfare and by the Office of Economic Opportunity (OEO). These requirements are being revised.

ADMINISTRATION

Public assistance programs are administered at the Federal level by the Social and Rehabilitation Service (SRS), Department of Health, Education, and Welfare (HEW). Under the law, each State administers its own programs in accordance with its State plan, which SRS must approve. Each plan must declare the State's intent to comply with Federal regulations and must describe, in general terms, the scope and type of services which will be provided.

Under the act States have the primary responsibility to initiate and administer the programs. SRS Regional Commissioners determine adherence to State plans and to Federal policies, requirements, and instructions in HEW's Handbook of Public Assistance Administration and in program regulations.

SRS Regional Commissioners in San Francisco, California, and Philadelphia, Pennsylvania, are to monitor programs in these States.

The HEW Audit Agency is to audit the manner in which Federal and State responsibilities for the public assistance programs are carried out.

Implementation of State plan

California's Department of Social Welfare and Pennsylvania's Department of Public Welfare administer child-care programs at the State level.

California and Pennsylvania carried out child-care programs under interim State plans pending approval of their plans. California's plan was submitted in August 1969 and SRS approved it in September 1969, but the State was directed to revise the plan to insure that services--such as child care--are provided to nonmandatory groups on a Statewide basis rather than at the option of each county. As of February 1973, the State had not made this revision.

Pennsylvania submitted its plan in December 1969. Following reviews by SRS, the plan was revised and resubmitted twice. It was approved in June 1971.

FUNDING

During fiscal year 1971 Federal agencies spent about $637 million for child-care services provided to about 1.1 million children. About 60 percent of these children were served under the title IV-A program, which cost HEW about $291 million. Appendix II shows, by program and administering Federal agency, estimates of Federal expenditures and the number of children served during fiscal years 1970-72 under several acts.

Under title IV-A, States may provide child-care services through (1) cash allowances to AFDC recipients, who then make their own child-care arrangements, (2) State-operated facilities, or (3) contracts with State, public, or private agencies. The following table shows the estimated Federal cost and estimated number of children served under title IV-A nationwide and the portion applicable to contracted services in California and Pennsylvania for fiscal years 1970-72. The Federal Government pays 75 percent of the cost of contracted services.

	Fiscal year					
	1970		1971		1972	
	Federal share	Children served	Federal share	Children served	Federal share	Children served
	(millions)		(millions)		(millions)	
Title IV-A child care:						
Nationwide	$163.8	457,550	$290.7	621,665	$393.5	786,331
Title IV-A contracted child care:						
California (note a)	25.0	27,243	28.6	29,903	23.8	32,400
Pennsylvania	6.9	4,537	16.4	9,000	21.7	14,720
Total	$ 31.9	31,780	$ 45.0	38,903	$ 60.5	47,120

[a]Data was not available for children served under county contracts in fiscal years 1970-72. Such data was not available for the Federal share in fiscal year 1972. Thus all figures for these periods are understated.

We attempted to obtain nationwide estimates of the volume of contracted services in fiscal year 1971; however, HEW did not have--and could not obtain for us--reliable nationwide data.

LEGISLATIVE HISTORY

The Works Progress Administration Program established during the depression marked the Federal Government's recognition that day care was needed for pre-school-age children. The greatest impetus to day care came in 1941 when Public Law 77-137 provided Federal financial assistance to the States to establish and expand day-care centers in defense industry areas. A decline in the day-care movement occurred when these Federal funds were withdrawn after World War II in 1946 and a lull in Federal child-care activities continued until 1962.

The Social Security Amendments of 1962 (Public Law 87-543) authorized States to expand child-care services through purchase from public agencies. From 1964 to 1966, authority for additional child-care funds was provided under the Economic Opportunity Act of 1964 (42 U.S.C. 2701), the Elementary and Secondary Education Act of 1965 (ESEA) (20 U.S.C. 241), and the Demonstration Cities and Metropolitan Development Act of 1966 (42 U.S.C. 3301).

The Social Security Amendments of 1967 (Public Law 90-248) provided for purchasing services from both private and public agencies. Contracting for child care by the States has increased substantially since enactment of the 1967 amendments.

SCOPE OF REVIEW

Our review, which covered the administration of contracts for child-care services during fiscal year 1971, dealt only with purchased title IV-A services since the dollar amount of purchased title IV-B services was relatively insignificant.

We visited program and administrative centers in three counties in each State--Alameda, San Francisco, and Santa Clara Counties in California and Allegheny, Dauphin, and Philadelphia Counties in Pennsylvania. At selected day-care centers, we reviewed common data on eligibility for services, attendance and enrollment, costs and funding, ranges of services, and staffing ratios.

We discussed program activities and contracting procedures with personnel at these facilities and at the State level and at HEW regional and headquarters offices.

The following table shows the number and amount of title IV-A contracts in each county and the number and amount of those we examined.

	Title IV-A contracts			
	Total		Examined	
	Number	Amount	Number	Amount
Pennsylvania county:				
Allegheny	3	$ 2,661,000	3	$ 2,661,000
Dauphin	1	203,000	1	203,000
Philadelphia	18	12,669,000	6	11,123,000
Total	22	15,533,000	10	13,987,000
Other	27	6,071,000	-	-
Total	49	$21,604,000	10	$13,987,000
California county:				
Alameda	24	$ 4,220,000	4	$ 2,744,000
San Francisco	14	3,458,000	4	2,165,000
Santa Clare	32	1,930,000	6	561,000
Total	70	9,608,000	14	5,470,000
Other	(a)	28,524,000	-	-
Total		$38,132,000	14	$ 5,470,000

[a]Not readily available.

CHAPTER 2

PROGRAM RESULTS

The programs for contracted child-care services in California and Pennsylvania have achieved some success; however, WIN participants have used the services relatively little. Most WIN participants elected to receive cash allowances and to pay for child-care arrangements made on their own. In some instances contracted child-care spaces were filled by children whose parents did not have a need for child care because of work or training.

ACCOMPLISHMENTS

In the two States about 39,000 children attended day-care facilities under the title IV-A program during fiscal year 1971. These children were exposed to educational, social, nutritional, and health benefits. In some instances, the program enabled parents to obtain or continue employment or training.

The day-care centers we visited were in substantial compliance with Federal and State requirements, thus insuring a level of care in excess of custodial care. Adherence to the Federal Interagency Day Care Requirements resulted in some uniformity of the various program elements, including types and sizes of facilities, environmental standards, educational services, health and nutritional services, staff training, and parent involvement. The program also provided jobs for teachers, social workers, health aides, nutritional aides, and others, including some public assistance recipients.

In a June 1971 memorandum issued to clarify HEW policies on purchasing services, HEW headquarters informed its regional offices that the 1967 amendments to the act require States to use Federal funding to supplement, rather than supplant, other public support so that Federal participation will significantly expand the total amount of services provided to poor people. The number of children provided with contracted services in California and Pennsylvania has increased substantially in the past few years.

California

The California Department of Social Welfare administers the title IV-A program through (1) contracts with the State

Department of Education and (2) plans prepared by each of the State's 58 counties. The contracts cover a children's center program, a preschool program, and a migrant workers' day-care program.

Children's center program

This program, begun in January 1943, is administered by the State Department of Education and local school districts. The program provides supervision and instruction in day-care centers for children aged 2 to 16 while their parents are at work or in training.[1] The centers are open 10 to 12 hours a day and are designed to serve the children of low-income families. To help offset cost, a sliding fee, based on income, is charged to all parents.

Since Federal financial participation began, non-Federal expenditures have remained relatively stable but the number of children served has increased about 34 percent, as follows:

	Fiscal year			
	1968	1969	1970	1971
Children served:				
Federally subsidized	-	3,909	10,255	11,839
Other	15,477	13,472	8,435	8,861
Total	15,477	17,381	18,690	20,700
Funding:				
Federal	$ -	$ 2,351,249	$10,932,365	$12,734,882
State, local, and other	18,127,833	20,948,352	16,789,646	19,751,210
Total	$18,127,833	$23,299,601	$27,722,011	$32,486,092

Preschool program

The California Department of Social Welfare has been contracting with the State Department of Education for a part-day preschool educational program since fiscal year 1966. Services are purchased from local school districts and private nonprofit agencies which meet State and Federal

[1] Services to children attending school may be furnished before and/or after normal school hours.

requirements. The program is aimed at the educational and developmental needs of children from age 3 until they are enrolled in kindergarten. Children are eligible if the earnings of their parents are below income criteria and the parents are willing to participate in the program. No fees are charged. The number of children served and the total funding have remained essentially the same, as follows:

	Fiscal year			
	1968	1969	1970	1971
Children served	14,927	14,206	14,701	14,717
Funding:				
Federal	$11,237,233	$12,749,041	$11,953,558	$11,918,744
State	3,745,744	2,249,831	3,984,520	3,972,915
Total	$14,982,977	$14,998,872	$15,938,078	$15,891,659

Migrant workers' day-care program

The Department of Social Welfare began to purchase day care for children of migrant workers from the Department of Education in April 1969. The program provides free child-care services for children age 2 to 5 of migrant workers whose seasonal work does not permit enrollment in regular child-care programs.

Centers are located at 25 migrant camps in 13 counties. HEW pays the entire cost of the educational component of the program for migrant workers under title I of ESEA, (20 U.S.C. 241a) which authorizes financial assistance for educational programs to meet the special needs of educationally deprived children living in areas having high concentrations of children from low-income families.

In May 1970 the State also began a program of free care for infants of migrant workers. Centers provide service to infants age 6 weeks to 2 years and operate for 12 hours each working day of the agricultural season. The centers are located at three migrant camps in three counties.

The following table shows the number of children served by, and the sources of funding for, contracted child care provided under the migrant day-care program in California.

	Fiscal year		
	1969	1970	1971
Children served	950	2,287	3,263
Funding:			
Federal:			
Title IV-A	$140,899	$ 505,803	$1,111,250
Title I, ESEA	243,477	367,992	250,000
State	46,967	168,601	370,416
Total	$431,343	$1,142,396	$1,731,666

County contracts

The Department of Social Welfare has delegated to the 58 county welfare departments authority to contract for title IV-A services. Some county centers collect fees while others provide services free. The counties, rather than the State, maintain the necessary contract data. Statewide data was not readily available.

Pennsylvania

Pennsylvania began purchasing day-care services in early 1969 when OEO stopped funding the Philadelphia Headstart program because of an overall funding cutback. To continue providing services to these children, the State awarded a contract to the Philadelphia School District under title IV-A. The contract provided for day-care services to 5,000 children at an estimated yearly cost of $7.9 million. The conversion of one Federal funding source for another did not expand services. However, if title IV-A funds had not been used, services to many children would have ceased.

The Pennsylvania Department of Public Welfare now contracts for day-care services with local school districts, county commissioners, and private organizations. These contracts provide free services to children from infancy to 16 years of age. Services are usually provided in day-care centers but sometimes in day-care homes.

Under title IV-A contracts child-care centers are paid on the basis of actual costs incurred in providing services, subject to a maximum amount specified in the contract. This amount is established on the basis of the estimated number of children to be served and the estimated costs set forth in the contract.

Overall, title IV-A funds have expanded day-care services in the State. The following table shows the increases experienced since fiscal year 1969 in both funding and children served.

	Fiscal year		
	1969	1970	1971
Children served	(a)	[b]4,437	[c]9,000
Funding:			
Federal	$3,246,544	$6,852,002	$16,440,432
State and local	572,919	2,284,001	5,480,144
Total	$3,819,463	$9,136,003	$21,920,576

[a]Not available.

[b]The State's contracts authorized service to 5,500 children.

[c]Estimated.

USE OF CONTRACTED CHILD-CARE SERVICES BY WORKING OR TRAINING PARENTS

WIN participants, most of whom elected to receive cash and pay for child-care arrangements made on their own, made little use of contracted services. Also, a significant number of the available spaces were used solely for the child's benefit and not to meet the child-care needs of a working or training parent. As stated on page 5, Federal regulations require that services be provided to children of WIN participants and to children of other public assistance recipients for whom the States have required training or employment. The WIN program, enacted as part of the 1967 amendments, was designed to be the major program for moving employable public assistance recipients to economic self-sufficiency.

HEW data shows that, nationwide, there were 54,200 WIN participants as of June 30, 1971. To enable them to participate, child care was being provided to their 134,000 children. Almost 76 percent of these children were cared for in their own homes or in other private homes, and about 24 percent were cared for in child-care facilities. The data shows also that an additional 4,000 persons could not participate in the WIN program solely because adequate child-care arrangements were not available for their estimated 9,900 children.

Other data indicates that many more families than are now being served need child care because of a working or training requirement of the parents. California and Pennsylvania officials advised us that the need for child care, which would include the need by some working or training families, far exceeds their current resources. Officials in both States informed us that services were, in some instances, not provided to public assistance recipients who were working or training because their communities could not provide the local share of the cost. In addition, Pennsylvania officials stated that working or training families may be denied services because they apply after low-priority families have already enrolled their children and it is not practical, because of the disruptive effect on both the parents and children, to release the space for the higher priority needs. Although they believed these to be serious problems, State officials did not have data to evaluate how serious the problems were.

California

As intended by the Federal legislation, the children's center program served working or training parents; however, of the 11,839 federally subsidized children served during fiscal year 1971, only about 830 (7 percent) were children of WIN participants.

The preschool program is designed for social and environmental needs of the children, and the parents' employment or training is not a factor in determining which children are enrolled. Information was not available on the parents' employment or training status for the approximately 14,700 children served during fiscal year 1971. This program is not suitable for most WIN participants or other working or training parents because it is a half-day program and most centers operate only 10 months of the year.

The California State plan approved by SRS in September 1969 provides for child-care services to nonmandatory groups (see p. 6) at the option of each county rather than on a statewide basis. Although the State was directed to revise its plan to insure that services--such as child care--were provided statewide to nonmandatory groups, it had not done so as of February 1973.

The plan does not provide for accumulating data on the locations and extent of child-care services needed by mandatory and nonmandatory groups. The plan also does not provide for a systematic method of meeting the need for services so that the needs of public assistance recipients who are working or training are given priority.

Pennsylvania

At the end of fiscal year 1971, about 9,000 children were enrolled in Pennsylvania's title IV-A contracted child-care program. Information was not available regarding employment or training for parents of 1,800 of these children. For the remaining 7,200 children, 320 (4 percent) had parents who were WIN participants and 3,744 (52 percent) had parents who were working or training; the remaining 3,135 (44 percent) were enrolled solely to obtain social or educational benefits.

According to HEW data, 160 persons could not participate in Pennsylvania's WIN Program in June 1971 because adequate child-care arrangements for their 320 children were not available.

The Pennsylvania State plan approved by SRS in June 1971 consists of a statement of compliance with Federal regulations. The plan does not provide for accumulating data on the extent of child-care services needed by mandatory and nonmandatory groups and where they are needed. (See p. 6.) The plan also does not provide for a systematic method of meeting the need for services so that the needs of public assistance recipients who are working or training are given priority.

CONCLUSIONS

The low use of contracted child-care services by WIN participants and the relatively large number of enrollees whose parents are not working or training raise serious questions as to whether these services are achieving the primary

objective of the program, to help welfare families become self-sufficient.

The State plans do not provide for accumulating information needed to (1) assess the seriousness of program shortcomings and (2) establish a systematic method of meeting priority needs. Similar weaknesses may exist in the other State plans.

RECOMMENDATION TO THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE

We recommend that the Secretary require the Administrator of SRS to assist the States in developing plans for accumulating information needed to (1) assess the seriousness of program shortcomings and (2) establish a systematic method of meeting priority needs. Plans should provide for accumulating information on the locations where services are needed, and the extent of services needed, by both public assistance recipients who are working or training and nonworking or nontraining parents who are eligible for child-care services.

AGENCY COMMENTS AND ACTIONS

HEW concurred in our recommendation and stated that regional and headquarters program and financial staffs had been increased. Their principal duties will include assisting States in developing the type of plans we recommended. (See app. I.)

IMPACT OF REVISED REGULATION

On May 1, 1973, HEW published its revised regulations (45 CFR 220) regarding child-care services, which will become effective on July 1, 1973. Under the revised regulations, such care must be for the purpose of enabling caretaker relatives to participate in employment or training or be needed because of the death, continued absence from the home, or incapacity or inability of any member of the child's family to provide adequate care and supervision. Day care may also be provided, when appropriate, to eligible children who are mentally retarded. The revised regulations also provide for more stringent eligibility requirements to be met by persons qualifying for services as part of the nonmandatory group. The revisions should reduce the number of children enrolled whose parents are not working or training and

reduce instances where children of parents in the mandatory group are denied services because children of parents in the nonmandatory group have already filled available spaces.

CHAPTER 3

PROBLEMS IN CONTRACTING FOR CHILD-CARE SERVICES

HEW has not adequately monitored child-care costs and services, nor has it provided adequate guidance to States to assist them in contracting for services. Further, HEW has not implemented a system to provide data for assessing program effectiveness. Because costs of contracted services are not identified separately from other costs claimed by the States, HEW has no basis for ascertaining whether the costs are reasonable. When our review began in February 1971, HEW had not audited child-care contracts and there had been little audit activity related to child-care contracts by California and Pennsylvania auditors. Because of the absence of adequate HEW monitoring:

--There were weaknesses in contract requirements and procedures.

--Free child-care services were provided to financially ineligible families.

--Financially able families were not required to pay fees.

--Facilities were underused due to low attendance.

--There was a significant variance in the cost of contracted child care ranging from $1,100 to $6,300 per year per child.

--There were fiscal weaknesses which caused inaccuracies in State claims for title IV-A funds.

--There were problems involving the local matching share required for Federal financial participation.

Most of these conditions in California pertain to the county contracts, which constituted a small portion of the total contracted child care in the State during fiscal year 1971. However, according to State officials, child care will be expanded in future years through these contracts.

HEW needs to improve program administration with a view toward eliminating problems such as those discussed in the following sections of this chapter.

CONTRACT WEAKNESSES

HEW has not provided guidance to States on child-care contracting and does not require that contracts be approved by HEW regional or headquarters officials before they are awarded. States are not required to report to HEW on the status of contractor performance. In the absence of such safeguards, various contracting problems existed.

For example, some child-care contracts

--did not require contractors to submit periodic progress reports,

--did not specify who has title to equipment or supplies purchased under the contract,

--did not include adequate safeguards over subcontracts,

--were not awarded competitively and no documentation was available supporting the reasonableness of contract amounts negotiated,

--were entered into without preaward cost analysis by the States, and

--specified only lump sum amounts and did not establish rates of payment or other minimum performance requirements necessary for contractor reimbursement.

Some examples of these weaknesses follow.

Under contracts awarded by San Francisco County, the county's liability was not limited and contractors could receive supplemental fund increases without any change in the number of children served or the period of the contract. For example, one center was awarded a $20,000 contract to serve 30 children for 1 year. The contract was later increased to $72,000 for the same 30 children for the same period. According to a county official, supplemental fund increases are permitted because day-care costs are not yet standardized. Open-end contracting, in our opinion, does not provide any incentive for contractors to economize and control operations since the county would allow cost increases.

A Santa Clara County contract specified a payment rate of $6 per day for federally subsidized child care. However, the contractor charged private clients about $5 per day. The county contracting officer could not document or explain to us how the center's rate for federally subsidized children was established. A second contract was awarded to the same contractor for another center at the same rate, again without documentation as to how the rate was decided upon.

The HEW Audit Agency, at the State's request, reviewed a major child-care contract later canceled by Pennsylvania. The contract committed State and Federal funds totaling $4 million for developing and implementing a model child-care program to serve about 1,900 children. However, the contract was terminated in April 1971 after costs of about $2.4 million had been incurred without establishing any child-care centers. The Audit Agency's report noted weaknesses in the State's contracting process covering such areas as:

1. Contractor selection--there was no evidence that other contractors were evaluated or that the capabilities of the contractor were compared with those of other contractors having day-care expertise.

2. Contract party responsibilities--the contract did not specify the responsibilities of each party, the objective of the contract, and the scope or work.

3. Monitoring--the contract did not require the State to monitor contractor performance. Reports were not required, nor were monthly billings required to be in sufficient detail to measure the contractor progress.

As of February 1973 negotiations between the State and the contractor for a settlement were still in process.

None of the fiscal year 1971 contracts reviewed in Pennsylvania included requirements relating to:

--Subcontracting procedures.

--Use of competitive processes by the contractor, to the extent practical, in purchasing supplies or equipment.

--Protection of State and Federal rights to (1) property, equipment, or copyrights acquired under the contract or (2) data developed under the contract.

--Progress reports or other types of reports to determine contractor performance.

--Establishment of payment rates or other minimum standards necessary for reimbursement of contractor costs.

The State Department of Public Welfare improved the fiscal year 1972 contracts, and requirements relating to some of the above items have been included. However, the contract weaknesses discussed in this section, in our opinion, show a need for HEW guidance to the States in contracting for services.

NEED FOR CLARIFICATION OF ELIGIBILITY REQUIREMENTS

Because eligibility requirements under title IV-A and HEW's implementing regulations are vague, States have been permitted to make their own interpretations regarding eligibility for day-care services. Consequently, ineligible families received free services thereby reducing the impact of the program because, where they filled child-care spaces, services to eligible families were denied.

The HEW regulations pertaining to providing child care to nonmandatory groups (see p. 5) lack clarity as to eligibility requirements. California and Pennsylvania are among those States providing services to all or a portion of the nonmandatory groups. Although these States were serving many eligible families, ineligible families were also receiving free day care.

The following table shows the results of an eligibility verification we made for a random sample of 331 families receiving contracted services.

	Number of families served by centers visited	Number of families in sample			
		Total	Public assistance recipients	Not public assistance recipients	Families found ineligible
California	700	139	71	68	15
Pennsylvania	680	192	78	114	15
Total	1,380	331	149	182	30

Because they had incomes in excess of the State criteria, 30 families were ineligible for services. Some children were enrolled because local agencies applied their own interpretations in determining eligibility. For example, a Pennsylvania center disregarded the income of one parent to enroll the family's children. The family had a gross monthly income of $1,062, but the center considered only the $650 monthly income of the husband in determining eligibility. In this case, the combined income of both parents exceeded the income limitation for eligibility.

In California a county contract provided for services to children of college students while they attended classes.

Several of these students had monthly net income in excess of the State criteria.

For additional examples of financially ineligible families in California and Pennsylvania receiving services, see appendix III.

Such families have received services because in both States local officials often did not verify or periodically update income information provided by families requesting services. This problem also allows families to pay less than the proper fee, where fee schedules are in existence.

The ineligible families we noted in California were enrolled under the county programs. The preschool and children's center programs had generally effective guidelines to insure the enrollment only of children of eligible families.

Most ineligible families we noted in Pennsylvania were in Philadelphia County, where day-care centers determined eligibility. In contrast, local welfare offices made eligibility determinations in Dauphin and Allegheny Counties. These offices maintain data on AFDC applicants and recipients, and it seems logical for them to determine eligibility. The operator of a day-care center has no incentive to find an applicant ineligible so long as room is available for a child. According to State officials, the substantial caseload increase experienced by the welfare caseworkers in Philadelphia County prohibited their making eligibility determinations for child-care services. Further, a lack of State personnel has hampered followup of determinations by the centers.

NEED TO REQUIRE FINANCIALLY ABLE FAMILIES TO PAY A PORTION OF CHILD-CARE COSTS

HEW regulations require that child-care services be continued until a family becomes financially self-sufficient and can make other child-care arrangements. Low-income families often do not have sufficient resources to pay for the total cost of day care even after parents become employed. But HEW believes that families who are able to do so should pay for services on the basis of a sliding fee scale. In Pennsylvania, however, all families receive free

child care under contracted services because the State has not implemented a fee schedule.

In California fees may or may not be charged depending on the program. The preschool program does not charge fees to any family served, and all children receive free care if their families are former, present, or potential AFDC recipients. The children's center program collects fees from all families, including present recipients of AFDC payments. Under California's county contracts individual counties or individual day-care centers establish fees. At some centers, fees were not charged. This situation resulted in an underenrollment at one center which charged fees, because the parents residing near this center enrolled their children in a center which did not charge fees. The no-fee center incurred additional transportation costs for these children.

Pennsylvania and California families may receive free child care after they have become able to pay a portion of the cost. Since there is no fee schedule for some programs in California and no schedule at all in Pennsylvania, Federal and State governments pay more for contracted child care than necessary.

UNDERUSED FACILITIES CAUSED BY LOW ATTENDANCE

HEW has not provided guidance to the States for dealing with situations of low attendance. Therefore some contractors had implemented controls to encourage high attendance, and contractors without controls usually had underused facilities due to low attendance. Of the 32 contracts analyzed in California and Pennsylvania, average monthly attendance ranged from 34 to 90 percent and only 11 contracts had an average attendance of 80 percent or higher. Higher attendance prevailed under certain contracts that served predominantly working or training parents.

California

The children's center and preschool programs implemented controls to encourage high attendance. Under the children's center program, payment by the State was based on the hours of attendance and parents had to pay fees regardless of whether the child attended. Under the preschool program 93-percent attendance was to be maintained for a center to receive reimbursement of total costs. Our tests at selected centers showed attendance to be generally high and to be within the State limits required for such reimbursement.

County centers usually did not have controls to encourage attendance. Minimum attendance levels were not required and efforts were not made to determine reasons for low attendance shown on attendance reports. During a 4-month period in fiscal year 1971, average attendance at six county centers was only 68 percent and ranged from 34 to 80 percent. Only two of the six centers had an average attendance of 80 percent. One center with an average attendance of only 34 percent served the children of college students who required the services for short periods while attending classes.

Pennsylvania

State regulations require that day-care centers maintain daily attendance records and submit monthly reports of enrollment and attendance. The State does not regularly analyze the data submitted because attendance has no relationship to the amount of reimbursement. Centers are paid on the basis of actual costs incurred, regardless of the number of children in attendance. The attendance data submitted

by certain centers that served both federally subsidized children and other children was not useful for evaluating the attendance of the federally subsidized children because the reports did not separately identify these children.

For 26 contracts under which centers were in operation at least 8 months during fiscal year 1971, average attendance was only 72 percent. Only centers operating under 9 of the 26 contracts had an average monthly attendance of 80 percent or higher.

Low attendance in most centers resulted from a combination of (1) normal absenteeism due to sickness, (2) children being habitually absent without being dismissed from the program, and (3) parental decisions to leave preschool children in the care of older siblings during the summer.

In those programs serving predominantly children of working or training parents, attendance rates were usually high. One program serving a substantial number of such parents had an average attendance of 86 percent during fiscal year 1971, and a program serving a substantial number of parents not working or training had an average attendance of 66 percent.

We obtained attendance data from nine licensed private child-care programs not funded by title IV-A and serving mostly working parents who paid fees. These programs operated year-round and had relatively high attendance. The average monthly attendance was about 92 percent and ranged from 86 to 97 percent.

A relationship apparently exists between attendance and the needs of the families served. When families require child care because the parents are working or training, the program will usually experience good attendance. We believe that, if HEW established controls to insure that enrollment priority was given to the children of such parents, the higher priority category, attendance would improve substantially. Also minimum attendance levels should be required for reimbursement purposes to avoid substantially idle facilities.

NEED TO EVALUATE AND MONITOR REASONABLENESS OF COSTS

Federal regulations require that the State plan (1) provide for establishing payment rates for child-care services which do not exceed amounts reasonable and necessary to insure quality service, (2) outline the methods used in establishing and maintaining such rates, and (3) provide for maintaining accessible information to support such rates.

HEW did not evaluate the reasonableness of costs for contracted child care in California and Pennsylvania. Because HEW has not furnished standards or criteria to the States for use in determining reasonable costs, the States have not implemented a system for establishing payment rates, and significant cost variances for similar services are common. Although variations are to be expected, the variances noted seem extreme in terms of the amount of service received.

Variations in cost for similar services

Full-day programs providing comparable services that complied with the Federal requirements cost from $1,100 to $6,300 a year per child.[1] (See app. IV.) Only one major half-day program had been established--the California preschool program--and, at the centers we visited, costs ranged from $950 to $1,800 a year per child. Many factors contributed to the variation.

Low attendance has been one of these factors. For example, in California one center with a capacity of 40 children (the contracted number of children to be served) had an average enrollment during fiscal year 1971 of 28 children. The attendance rate was 34 percent. On the basis of the capacity of 40 children, the cost per child per day was $5.40; on the basis of the enrollment of 28 children, the cost was $7.70; and on the basis of attendance, the cost was $22.50.

The differences in the qualifications and salaries of personnel result in cost variations. An Allegheny County

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[1]Services for physically and mentally handicapped children were excluded from the comparison because of the unusual nature of such care.

program serving 365 children during fiscal year 1971 paid $770 a month to each teacher who had a college degree. This program employed about 30 teachers and would accept only teachers with degrees. A program serving 267 children in the same area paid only $600 a month to each teacher with a degree. Under the second program teachers without degrees were employed at lower salaries provided they had at least 12 college credit hours in early childhood development courses. Only a few of the 20 teachers employed under this program had degrees.

The amount paid for rental of facilities also contributed to cost variations. Some programs operated in rent-free facilities or incurred minimal rental expense. For other programs rent was as high as $1,000 per month per center.

Costs have varied also because some centers were members of a centrally administered group of centers while others were not. Centrally administered centers generally were able to reduce overhead costs and thus provide services at a lower cost. For example, California purchased services from two adjacent centers. One was a member of a centrally administered group of centers and the other was not. The cost per child at the centrally administered center was $4.50 per half day versus a cost of $6 per half day at the other center.

Comparison of cost with that of privately funded day-care programs

A comparative analysis showed that contracted services generally cost more than privately funded programs serving low-income families. (See app. V.) One reason for this is that Federal programs must comply with the Federal Interagency Day Care Requirements, which require that a more comprehensive program be provided, resulting in higher cost than that of some private programs.

One provision of these requirements that tends to increase cost is the more stringent child-to-adult-staff ratio which federally funded programs must maintain. In contrast, California and Pennsylvania use relatively liberal child-to-adult-staff ratios for licensing private centers. The extent of these differences is shown below.

Age group	(Children:adult) Federal Interagency Day Care requirements	State requirements California	State requirements Pennsylvania
3 to 4 years	5:1	12:1	8:1
4 to 6 years	7:1	12:1	10:1
6 to 14 years	10:1	12:1	13:1

Since salaries constitute the major portion (up to 75 percent) of the cost of operating a day-care center, the Federal ratios increase costs. The recent changes to day-care regulations will allow States to set their own child-to-adult-staff ratios as long as they meet standards set by the Secretary, HEW.

Fiscal weaknesses

Fiscal weaknesses under title IV-A contracts in some instances increased Federal costs in California and Pennsylvania.

For fiscal year 1970 the Pennsylvania Department of Public Welfare submitted duplicate claims for Federal reimbursement of administrative costs for a program in Philadelphia. The department claimed eligible costs of $33,700 to be reimbursed at the rate of 75 percent, or about $25,700. The department also claimed $9,100 of these same expenses as regular central office public assistance expenses at lower percentages. The error was due to a defect in the claim computation procedures and resulted in excess Federal reimbursement of at least $9,100. The department did not submit duplicate claims for Federal reimbursement of administrative costs for this program in fiscal year 1971.

In fiscal year 1972 HEW directed the department to include 5 percent of the total amount of child-care contracts as Department of Public Welfare overhead for State monitoring and evaluation. Between October 1971 and March 1972, the department had claimed Federal reimbursement of about $500,000 but had not incurred any monitoring or evaluation expense. Lesser amounts were claimed prior to October 1971.

Claiming Federal reimbursement before expenses have been incurred represents an overclaim of Federal reimbursement which requires a State adjustment. State officials informed us that

they would revise their procedures and adjust their claims for fiscal years 1970 and 1972. As of February 1973, Pennsylvania had reduced its claims by $622,343. The adjustments include $9,077 for fiscal year 1970 and $613,266 for fiscal year 1972.

A number of centers having child-care contracts were reimbursed on the basis of estimated costs instead of actual costs. This usually was the case when centers were serving children under both federally and privately funded programs. The accounting systems for a number of these centers were not designed to segregate costs.

At one California center, the rate for private clients was $100 per child per month, yet the charge to the county for federally subsidized children was $126 per child per month. The center also received about $735 per month which represented $1 in transportation costs per day for each federally subsidized child. The center's actual monthly transportation cost was about $200. Other services provided to federally subsidized children and children of private clients were the same. The following chart shows the difference between the charge for federally subsidized children and that for children of private clients.

Calculation of difference

Title IV monthly billing ($126 X 35 children)		$4,410
Transportation charge ($1 X 35 children X 21 days)		735
Total		5,145
Private monthly rate ($100 X 35 children)	$3,500	
Actual transportation costs	200	3,700
Difference		$1,445

Another California center, which was reimbursed for its total monthly expenses from Federal funds under title IV-A, billed and received an additional $3,256 for the same month's expenses from the Department of Labor. According to Labor officials, the payment properly applied to a Labor program.[1]

[1] After we discussed this matter with county officials, the county corrected this overpayment by reducing its payments to the center by $3,256.

We discussed improper or duplicate claims ranging from $55 to about $8,100 with the officials responsible for the activities, who agreed to take corrective actions.

Some of the centers had adequately controlled their expenditures, and our tests at these centers did not disclose significant procedural weaknesses or dollar deficiencies.

With the exception of the special audit of canceled contracts by the HEW Audit Agency at Pennsylvania's request, HEW had not audited child-care contracts in California and Pennsylvania at the completion of our fieldwork. Subsequently HEW completed reviews in five States and undertook work in several others, including California.

The internal audit staffs of California and Pennsylvania have not audited contracted child-care services although counties or cities have made some audits.

On the basis of the fiscal weaknesses noted, HEW and the States should periodically audit programs to insure effective fiscal controls.

CONTRIBUTIONS BY PROVIDERS OF SERVICE TOWARD LOCAL SHARE

Under the contracted child-care program, HEW's cost share is 75 percent. The remaining 25 percent may be provided by (1) the State, (2) a public agency, or (3) a private individual or a private organization, except that an individual or organization which provides child-care services may not make donations toward the 25-percent local share.

In California and Pennsylvania some donations from private sources violated or circumvented these regulations. For example, a number of contracts in Pennsylvania during fiscal year 1971 provided for the day-care centers to fund all or a portion of the 25-percent local share. The State paid these centers an amount comprising the Federal share (75 percent) and the State share, if any. Financial resources of the center, without any transfer of funds from the center to the State, provided the balance.

By circumventing HEW regulations, a California center received a profit in addition to Federal reimbursement for 100 percent of costs. This center donated the 25-percent

local share through a third party that forwarded the funds to the county. The center billed the county in excess of the actual monthly costs, which allowed the center to recoup its share, the Federal share, and a profit. (See p. 31.)

CONCLUSIONS

Social and economic benefits to children and parents, as envisioned under title IV-A, can be enhanced by improved HEW monitoring of the contracted child-care program. HEW needs an adequate reporting and control system to effectively administer the program. HEW's monitoring efforts and determinations of the reasonableness of costs in relation to the services received have not been adequate. Contract weaknesses, questionable enrollee eligibility, low attendance, fiscal discrepancies, and problems relating to the local share of program costs have hampered program effectiveness and increased costs.

RECOMMENDATIONS TO THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE

We recommend that the Secretary require the Administrator, SRS, to:

--Establish procedures for, and implement a reporting and control system to better insure, effective and timely monitoring of fiscal and program aspects of State contracts, including more HEW and State audits.

--Establish criteria for HEW and States to use in evaluating the reasonableness of overall costs for services.

--Clarify eligibility requirements to help avoid providing services to ineligible families.

--Provide guidelines for use by the States in establishing sliding fee scales for families financially able to pay for some portion of title IV-A services.

--Follow up on California and Pennsylvania actions to adjust the incorrect claims for Federal funds discussed in this report.

--Provide guidelines to States for controlling the use of private contributions toward the local share of program costs.

AGENCY COMMENTS AND ACTIONS

By letter dated February 22, 1973, HEW advised us that it generally agrees with our conclusions and believes that management of public assistance programs and child-care services can be improved through implementing our recommendations. (See app. I.)

HEW stated also that it:

--Has increased its central and regional office staffs to assist in establishing program and fiscal controls and in monitoring public assistance programs and child-care services. It is developing a series of financial review guides which will provide a basis for systematic evaluation of State activities, including child-care contracts under the AFDC program. The HEW Audit Agency has audited five child-care programs, and several more audits are underway.

--Is developing a social services management system which can help carry out the recommendations to insure effective and timely monitoring of fiscal and program aspects of child-care services.

--Agrees that criteria are needed for evaluating the reasonableness of costs for services. It issued guidance in December 1972 for use by its regional staffs in determining whether payment rates for services are reasonable. It plans to develop criteria and additional guidelines for States and to provide them with technical assistance as necessary.

--It is revising its regulations to clarify eligibility requirements and to facilitate identification of eligible persons. (Revised regulations approved subsequent to HEW's comments include a clarification of eligibility requirements and also a requirement for semiannual redeterminations of eligibility.)

--Is developing guidelines for use by States in establishing equitable fee schedules for families financially able to pay for some portion of services under title IV-A. HEW plans to have the guidelines ready for use in fiscal year 1974. (Revised regulations include an authorization to use State fee

schedules to determine charges to be made to persons in the nonmandatory group who receive child-care services.)

--Agrees to follow up on California and Pennsylvania actions to adjust the incorrect claims for Federal funds discussed in this report. Its staff is continuing to negotiate adjustments with California. As discussed on page 30, Pennsylvania has made adjustments totaling $622,343.

As discussed on page 32, HEW policy prohibits Federal financial participation in State funds resulting from contributions from private sources where such funds revert to the donor's facility or use or to the use of any other designated facility or project. HEW concurred that its policy has not prevented inappropriate use of private contributions and that the proposed changes to HEW regulations include guidelines to remedy this situation. The revised regulations issued on May 1, 1973, more clearly state what constitutes valid donated private funds. However, enforcement of this provision will be necessary to prevent further inappropriate use of private funds.

Actions taken or planned by HEW, if properly implemented, should help improve administration and management of contracted child-care services.

STATE COMMENTS

In commenting on problems in contracting for child-care services, the Deputy Director for Operations, California Department of Social Welfare, stated that California opposes any change in Federal guidelines that would deny the State the viability needed to bring problems under control. He also suggested that States be allowed to pursue their own programs of fiscal and program management and control.

The Secretary, Pennsylvania Department of Public Welfare, pointed out that although our report is fair and honest it omitted reference to State actions to correct past procedural errors and to generally improve the quality and delivery of services. These actions include:

--Development and use of a new contract format for purchasing day-care services, which would correct some of the weaknesses in contract requirements and procedures.

--Advising contractors not to provide services to a family applying for them until the county has determined the family's eligibility. Eligibility will be reverified every 6 months to avoid providing services to ineligible families.

--A contract for a comprehensive study of services to (1) enable better planning for location of day-care operations and (2) better serve families requiring such services to avoid low attendance and underuse of facilities.

--Efforts to establish a more equitable payment rate for services. These efforts include ongoing fiscal audits of all contracted services, use of a cost analysis system to identify and define the functions or components of services and the related costs, and indepth studies of selected contracted day-care programs.

--Revising the basis for claiming administrative overhead costs to rectify weaknesses which caused inaccuracies in State claims for Federal funds.

CHAPTER 4

CONTINUING PROBLEMS IN COORDINATION OF CHILD-CARE PROGRAMS

We have previously stressed a need for strengthening Federal and local coordination of preschool programs.

Our report to the Congress entitled "Federal Programs for the Benefit of Disadvantaged Preschool Children, Los Angeles County, California" (B-157356, Feb. 14, 1969) stressed the desirability of coordinating (1) OEO's Head-start preschool programs, (2) title IV-A preschool programs, and (3) the Office of Education's preschool program under title I of ESEA.

In January 1972 we reported to the House Committee on Education and Labor on the "Study of Child Care Activities in the District of Columbia" (B-174895, Jan. 24, 1972). The study indicated that a lack of local coordination has contributed to the following problems.

--There was an apparent imbalance in the location of child-care centers.

--Children of working parents were in half-day programs, and children of nonworking parents were in full-day programs.

--Varying methods of using professional staff in half-day programs caused wide cost variances.

--The most economical food service arrangements were not used in all cases.

--Private operators did not use existing public services and facilities.

Although the study was limited to the District of Columbia, the report noted that the numerous Federal programs providing child care and the manner in which they are administered could permit the situation described to occur in most any major urban area in the Nation.

On November 17, 1972, we reported to the Chairman, House Committee on Education and Labor, that reviews of child-care activities in Chicago, Illinois, and St. Louis, Missouri, confirmed our view that the situation reported for the district could exist in other major urban areas and fortified our conclusion that Federal child-care programs should be consolidated and better coordinated locally.

During our review of title IV-A contracted services, we concluded that the coordination problems cited in our earlier reports existed in California and Pennsylvania.

FEDERAL LEVEL

Headstart program administration has been moved from OEO to HEW's Office of Child Development, which was established on July 1, 1969, to serve as coordinator for Federal preschool programs. Even though HEW agencies now administer the Headstart and title IV-A programs, the programs operate autonomously with little coordination.

In California and Pennsylvania, several programs were jointly funded by Headstart and title IV-A. The children were intermixed and the services provided were identical. In California, a Santa Clara County program served about 365 children; services to 45 of these children were funded by title IV-A and the balance by Headstart. This joint funding increased administrative efforts since program costs must be prorated to the title IV-A and Headstart programs. Problems also resulted because Headstart permits in-kind contributions to be used as the local share, but the title IV-A program requires cash contributions. At the Federal level, SRS and the Office of Child Development did not coordinate these programs.

LOCAL LEVEL

The Community Coordinated Child Care (4C) program is the logical mechanism for coordinating child care locally. The concept grew out of congressional concern over the proliferation of child-care programs and funding sources without comprehensive planning and coordination. The Interagency Federal Panel of Early Childhood developed 4C program guidelines in 1968, and overall direction was assigned to the Office of Child Development in 1969. Responsibility

for the day-to-day operation of the 4C program rests with the Federal Regional Committees, established in 1969 by the Federal Panel and composed of members of various Federal agencies involved with child-care programs.

The efforts of the committees in California and Pennsylvania have not been effective, in our opinion, and little progress has been made in meeting program goals. None of the 67 counties in Pennsylvania had a fully recognized 4C program as of February 1973. Very few local 4C programs have been established in California. Certain counties had established local welfare councils, which maintained data on county day-care operations. The councils, however, did not coordinate child-care needs with resources but functioned as a source of information on the availability of child care.

Such lack of coordination duplicates administrative costs and clusters child-care resources in certain areas while other areas need but are not receiving services. For example, in Allegheny County the majority of services were available to the city of Pittsburgh. One program to serve 390 children and one program to serve 600 operated in the same 8 geographic locations of the city, had separate contracts with the State, and administered the programs independent of each other. However, at the time of our fieldwork, other areas of the county had few services, although a number of the residents in the areas without services consisted of poor or low-income families with preschool children who needed services so that the parents could work or train.

CONCLUSIONS

Federal and local coordination of preschool programs has been mostly ineffective. Federal coordination is needed to overcome problems of operating multiple Federal programs which provide similar services in the same geographic areas.

Local coordination is required to ascertain community child-care needs and the additional resources required to satisfy the unmet need. The absence of functioning local 4C programs has contributed to a fragmented and uncoordinated approach to funding and administering preschool programs from different Federal sources without assurance that areas having a valid need receive the services.

Since we have previously informed the Congress of the need for coordination of child-care programs, we are not making further recommendations now. We wish only to advise that, although some actions have been taken, the coordination problem has not been completely resolved.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

FEB 22 1973

Mr. John D. Heller
Associate Director
Manpower and Welfare Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Heller:

The Secretary has asked that I reply to your letter of June 12, in which you asked for our comments on a draft report entitled, Review of Contracts for Child Care Services Under the Aid to Families With Dependent Children Program. Our comments are enclosed. As requested, we are also enclosing comments from Pennsylvania and California on this report.

We appreciate the opportunity to review and comment on this report in draft form.

Sincerely yours,

James B. Cardwell
Assistant Secretary, Comptroller

Enclosure

APPENDIX I

COMMENTS OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE ON A DRAFT OF A GAO REPORT ENTITLED, "REVIEW OF CONTRACTS FOR CHILD CARE SERVICES UNDER THE AID TO FAMILIES WITH DEPENDENT CHILDREN PROGRAM"

GAO Recommendations

HEW should

-- assist the States in developing State plans which provide for the accumulation of information needed to (1) assess the seriousness of program shortcomings, and (2) establish a systematic method of meeting priority needs.

-- establish procedures for and implement a reporting and control system to better assure effective and timely monitoring of fiscal and program aspects of State contracts including audit efforts by HEW and the States.

Department Comment

We concur with these recommendations. One of the Department's top priorities is to improve the management of public assistance programs. To this end, regional and headquarter's program and financial staffs have been increased. Their principal duties will entail establishing and/or improving program and fiscal controls and monitoring public assistance programs. These new staff will also assist the States to develop the type of plans called for by the GAO recommendation. Further, specific action has been taken to improve the quality and timeliness of fiscal and program aspects of public assistance programs (including contracts for child care under the program of Aid to Families with Dependent Children). The HEW Audit Agency has completed a review of child care in five States, field work continues in an additional six States. A position of Associate Regional Commissioner for Management has been established in each regional office by DHEW's Social and Rehabilitation Service (SRS). These associate commissioners are responsible for assuring that State public assistance programs are being operated, both programmatic and fiscally, in accordance with law and regulation. Fiscal reviews will include contracts and purchase of service agreements. Financial review guides are being developed for these purposes.

In addition, considerable effort has gone into developing a social services management system for programs authorized under Titles I, IV, X, XIV, and XVI of the Social Security Act including child care services.

The above we believe will result in marked improvements in the administration of the social services area.

GAO Recommendation

HEW should

-- establish criteria which can be used in evaluating the reasonableness of the overall costs for the services procured.

Department Comment

We concur with this recommendation. On December 20, 1972 the Department issued guidance to Regional staff which is to be used in reviewing rates of payment for purchased services. The guidance provided a number of tests to be used to determine whether the rates of payment were reasonable.

We are in the process of collecting and developing data to provide additional criteria.

Once this data has been developed, we plan to issue the necessary guidelines and provide technical assistance as necessary.

GAO Recommendation

HEW should

-- clarify eligibility requirements to help avoid providing services to ineligible families.

Department Comment

We concur. Proposed changes to Department regulations have been developed and are in the internal clearance process. These changes will clarify the eligibility requirements and allow the States to easily identify those individuals eligible for services.

GAO Recommendation

HEW should

-- provide guidelines for use by the States in establishing sliding fee scales for families financially able to pay for some portion of services under Title IV-A.

Department Comment

We concur. Much effort has gone into developing equitable fee schedules. The Office of Child Development and the Community Services Administration of this Department are coordinating the development of these guidelines. We plan to have them ready for use in fiscal year 1974.

GAO Recommendation

HEW should

-- follow-up on the actions taken by California and Pennsylvania to adjust the incorrect claims for Federal funds discussed in this report.

Department Comment

Follow-up actions taken by California and Pennsylvania to adjust for incorrect claims are being taken by the Regional Commissioners.

Pennsylvania's Quarterly Statement of Expenditures Report for the quarter ending June 30, 1972 includes an adjustment in Federal Funds for prior quarters of $613,266.80, "to correct overstatement of Federal Claim for day care contracts."

HEW staff is continuing to negotiate with the State of California for recovery of the funds discussed in this report.

GAO Recommendation

HEW should

--provide guidelines to the States for controlling the use of private contributions toward the local share of program costs.

Department Comment

We concur. Since existing SRS policies have not prevented inappropriate uses of private contributions, the Department will issue in the near future revised regulations and guidelines in order to remedy this situation.

ESTIMATED FEDERAL EXPENDITURES FOR

MAJOR CHILD-CARE PROGRAMS

Program	Agency	Fiscal year 1970 Federal funds (millions)	Fiscal year 1970 Children served	Fiscal year 1971 Federal funds (millions)	Fiscal year 1971 Children served	Fiscal year 1972 Federal funds (millions)	Fiscal year 1972 Children served
Social Security Act:							
Title IV-A:							
WIN	HEW	$18.4	57,500	$ 29.0	98,000	$ 57.0	146,000
AFDC Social Services (note a)	HEW	90.6	110,367	196.7	195,335	259.2	268,861
AFDC Income Disregard (note b)	HEW	50.0	264,550	60.0	303,030	72.0	346,150
AFDC Work Expense (note b)	HEW	4.8	25,133	5.0	25,300	5.3	25,300
Total		163.8	457,550	290.7	621,665	393.5	786,311
Title IV-B:							
Child Welfare Services	HEW	1.4	20,000	1.3	20,000	1.2	18,000
Economic Opportunity Act:							
Title I (note c):							
Concentrated Employment Program	Department of Labor	7.5	8,400	7.5	9,500	7.5	9,500
Title II:							
Headstart, full year;	HEW	259.5	262,900	305.0	271,171	290.6	262,900
Headstart, summer;	HEW	42.1	208,700	25.6	120,466	48.9	208,700
Headstart, Parents and Child Centers	HEW	3.0	5,400	5.0	9,646	5.8	7,400
Total		304.6	477,000	335.6	401,283	345.3	479,000
Title III-B:							
Migrant Children	OEO	1.9	9,625	1.9	9,675	2.0	10,000
Elementary and Secondary Education Act:							
Title I	HEW	[d]94.3	368,702	(e)	(e)	(e)	(e)
Demonstration Cities and Metropolitan Development Act:							
Model Cities	Department of Housing and Urban Development	10.6	(e)	(e)	(e)	(e)	(e)
Total (all programs)		$548.1	1,341,227	$637.5	1,062,213	$749.5	1,302,811

[a]Costs of services for children of AFDC families outside of the WIN Program. Most of the cost for purchased services is included in the AFDC Social Services segment.

[b]Costs of services for children of employed AFDC families whose care is financed in part because earned income or necessary expenses related to such employment were disregarded in determining the families' eligibility for AFDC cash assistance.

[c]Day-care services under title I are also provided by the Public Service Careers, Job Opportunities in the Business Sector, and Neighborhood Youth Corp program. Estimates on these programs were not available. Services for the Concentrated Employment Program are also authorized under title II of the Manpower Development and Training Act.

[d]Figures are only for kindergarten, although benefits under this title extend to school-age children as well.

[e]Not available.

APPENDIX III

EXAMPLES OF FINANCIALLY INELIGIBLE FAMILIES RECEIVING CHILD-CARE SERVICES

Pennsylvania

		Monthly				
Example	Number in family	Gross income	Allowable deductions (note a)	Net income	Basic needs amount (note b)	Income in excess of basic needs
A	4	$1,127	$ 748	$379	$301	$ 78
B	6	1,593	1,004	589	378	211
C	3	1,062	619	443	252	191
D	2	937	609	328	208	120
E	4	1,343	879	464	301	163

[a]The allowable deductions refer to the normal deductions, such as payroll taxes, etc., as well as incentive deductions which allow a family to deduct $30 from its gross income plus one-third of the remaining amount of gross income in measuring net income in relation to basic needs. It also includes work expenses and child-care costs.

[b]The State welfare agency establishes the basic needs amount as the amount a family needs to obtain the basic necessities.

California

		Monthly		
Example	Number in family	Net income	Basic needs amount (note a)	Income in excess of basic needs
A	3	$900	$485	$415
B	4	903	550	353
C	3	750	485	265
D	3	800	485	315

[a]The basic needs amount established by the county welfare department was condensed from State Department of Social Welfare guidelines. Part of the amount is a necessary expense related to earning an income, which includes child-care costs.

RANGE OR ANNUAL COSTS PER CHILD

FOR DAY-CARE SERVICES UNDER SELECTED CONTRACTS

Pennsylvania

County	Contract	Ages of children	Hours of operation	Type of day care	Cost of day care: Per contract terms	Cost of day care: Per actual cost of children in attendance
Philadelphia	A	3 to 5 years	Full day	Center	$2,219	$3,136
	C	6 months to 3 years	Full day	Home	1,793	2,897
	D	3 to 5 years	Full day	Center	2,063	2,875
	E	3 to 9 years	Full day	Center	1,541	1,857
	G	6 months to 3 years	Full day	Center	3,544	4,321
	H	3 to 6 years	Full day	Center	3,346	5,221
Dauphin	A	infancy to 16 years	Full day half day	Home and center	1,221	2,383
Allegheny	A	3 to 5 years	Full day	Center	2,484	5,446
	D	infancy to 5 years	Full day	Home and center	1,909	6,320
	F	3 to 5 years	Full day	Center	3,743	4,745

California

County	Full-day services: County contracts (note a)	Full-day services: Children's center (note b)	Part-day services for preschool children (note a)
Alameda	$1,092 to $2,364	$1,200 to $6,024	$ 948 to $1,728
San Francisco	[c]2,028 to 3,276	3,108	1,284 to 1,464
Santa Clara	1,584 to 2,148	1,236 to 3,828	996 to 1,776

[a]Ranges for these programs are based on enrollment or capacity of the center. Figures would be substantially higher if they were based on attendance.

[b]In fiscal year 1971 the State Department of Education ruled that the Federal reimbursement for each child in this program could not exceed $231 per month. Local school districts must absorb costs in excess of this. Before fiscal year 1971 all actual costs could be federally reimbursed.

[c]The cost range does not include a pilot infant-day-care contract estimated at $6,540 per child per year.

APPENDIX V

COMPARISON OF ANNUAL COSTS FOR SELECTED TITLE IV-A AND PRIVATELY FUNDED DAY-CARE CENTERS

Pennsylvania

	Full-day services	
	Title IV-A funded	Privately funded
Philadelphia	$1,857 to $5,221	$1,144 to $1,820
Dauphin	2,383	1,401
Allegheny	4,745 to 6,320	1,560 to 820

California

	Full-day services		Half-day services	
County	Title IV-A funded	Privately funded	Title IV-A preschool	Privately funded
Alameda	[a]$1,092 to $2,772	$1,260 to $1,320	$ 948 to $1,728	$756 to $852
San Francisco	2,028 to 3,276	1,164 to 1,800	1,284 to 1,464	948
Santa Clara	[a]1,236 to 2,772	1,140 to 1,200	996 to 1,776	708

[a]Limited to maximum reimbursement of $321 per month established by the State Department of Education for the children's center program. Actual yearly costs per child were higher; however, local school districts absorbed additional costs.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Caspar W. Weinberger	Feb. 1973	Present
Frank C. Carlucci (acting)	Jan. 1973	Feb. 1973
Elliot L. Richardson	June 1970	Jan. 1973
Robert H. Finch	Jan. 1969	June 1970
Wilbur J. Cohen	Mar. 1968	Jan. 1969
John W. Gardner	Aug. 1965	Mar. 1968
ADMINISTRATOR, SOCIAL AND REHABILITATION SERVICE:		
Francis D. DeGeorge (acting)	May 1973	Present
Philip J. Rutledge (acting)	Feb. 1973	May 1973
John D. Twiname	Mar. 1970	Feb. 1973
Mary E. Switzer	Aug. 1967	Mar. 1970